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ISRAEL: Prime Minister Meir's Labor Alignment appears to have reached an impasse in efforts to induce the conservative National Religious Party to join a coalition government. Press reports from Tel Aviv indicate that the National Religious Party has at least temporarily withdrawn from coalition talks.

Faced with this predicament, Prime Minister Meir might form a narrow coalition excluding the National Religious Party. Foreign Minister Eban told Ambassador Keating on February 12 that unless the religious party softened its terms for participation, the Alignment would form a coalition with only the Independent Liberal Party and the new Civil Rights Party. Eban added that two cabinet seats would be held open for the National Religious Party. This, he contended, would entice it to rejoin the government eventually.

A coalition without the National Religious Party would give Mrs. Meir a one-vote margin in the 120-member Knesset--a margin Eban admitted would be "uncomfortable." He said that the Alignment had secured the tacit agreement of the Agudat Religious Front to throw its five votes to the government on national security issues and on votes of confidence. The Communists, he thought, would also support the government against the right on Middle East peace issues.

It remains doubtful whether the Alignment will carry through on its threat to go ahead without the National Religious Party. Mrs. Meir probably still thinks that participation by the National Religious Party, with its ten Knesset seats, is needed if she is to govern effectively.

Under the law, Mrs. Meir has another month in which to form a new coalition. Chances are that she will make another effort to form one with the National Religious Party and the Independent Liberal Party. Should this effort prove fruitless, Mrs. Meir might call for new elections in the hope of restoring Labor's strength. [REDACTED]

ENERGY CONFERENCE: The outcome of the Washington energy conference, which left France in isolation, suggests some shift in the power relationships within the EC.

The decision of the 13-member conference to approve a call for "direct preparations of a conference of consumer and producer countries" contradicted the position paper that all the EC governments had accepted prior to the meeting. Although ostensibly a procedural matter, the French saw this point as raising the broad question of Europe's future relations with the US. They chose to stick to the view that acceptance of even a coordinating group composed of conference participants amounted to another European capitulation to "domination" by Washington--a charge to which many Europeans are on occasion sympathetic.

In this instance, the French were unable to carry the other EC members with them. Their failure was due in part to the Europeans' lack of confidence in their ability to cope with the energy crisis without US cooperation. It was also one of the first indications that, with the EC's enlargement, Paris cannot in every instance call the tune. The Germans, who are in a strong position because they hold the presidency of the EC Council, were not prepared to go along with the French, particularly since Bonn had the support of the British.

The immediate problems the community faces are no doubt difficult. The EC governments have postponed a meeting of foreign ministers scheduled for today at which the European-US declaration of principles was to have been discussed. The governments had also planned to announce a wide-ranging offer of cooperation with the Arab states.

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EUROPEAN COMMUNITIES: Discussions are under way within the EC on rules to maintain the present exchange relationship among community currencies, but meaningful agreement is not likely.

EC central bank governors on February 12 discussed the possibility of coordinating intervention to keep the EC's major floating currencies--the pound, lira, and French franc--at rates that will not cause major shifts in trade patterns within the EC. On Monday, French Finance Minister Giscard d'Estaing said publicly that the EC was considering "joint monetary action." He indicated that the French hope to offer some concrete suggestions when community finance ministers meet on February 18 to discuss the possibility of joint intervention.

Despite the willingness of EC members to discuss rules of conduct for their floating currencies, it will be very difficult to reach a meaningful agreement to maintain exchange rate patterns through intervention. Uncertainties about exchange rates arising from the oil price rise, coupled with the recent easing of capital controls in several EC countries, will probably induce significant currency adjustments this year which could only be prevented by heavy intervention, if at all.

The recent French decision, as well as the earlier British and Italian decisions to float their currencies was made to maintain expansionary domestic policies while avoiding reserve losses. Consequently, it is highly unlikely they would agree to use their reserves for heavy intervention--particularly when those reserves will be needed as contingency funds in the face of balance-of-payments deficits resulting from higher oil prices.

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KOREA: Seoul and Pyongyang are engaged in a bitter propaganda exchange that appears to signal the end of any prospects for meaningful North-South accords, at least for several months.

The propaganda exchange has evolved out of a territorial dispute over South Korean access to islands off the west coast, but the deterioration of relations stems from many other causes.

Seoul has magnified the dispute to heat up charges of an increased North Korean military and subversive threat and in order to justify its authoritarian response to domestic political unrest. Seoul is able to support its case by pointing to recent bellicose statements by North Korean leaders.

The North Korean statements are indeed strong--the harshest by Pyongyang since the initiation of its dialogue with Seoul in 1971. They are meant to exacerbate what Pyongyang sees as a deteriorating political situation in the South. The North's propaganda has accused the Pak government of being severely repressive and hostile to the commonly accepted goal of Korean national unification. It has also condemned Seoul's allegedly provocative naval activity in the area of the western islands. In this connection, Pyongyang's domestic propaganda has stressed the readiness of Northern forces to meet any hostile move by the South.

In contrast to this harsh propaganda, Pyongyang appears anxious to avoid actions that might assist Pak in improving his domestic situation. The North has adopted a relatively low military posture on the territorial seas dispute; there have been no clashes or incidents at any time, and no significant harassment for over a month. Pyongyang has also worked to prevent even the appearance of progress in the ongoing North-South dialogue, rejecting outright Seoul's concept of a nonaggression pact and other ROK efforts to generate some forward motion.

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North Korea's hard line has been echoed to some extent in Peking. China gave strong propaganda support to last fall's student demonstrations in Seoul, and a recent NCNA article harshly criticized the Pak government, claiming that it has lost interest in the dialogue with Pyongyang. This suggests that the Chinese see little to gain by pushing for a North-South agreement, at least while the present political instability in Seoul continues. In adapting itself to Pyongyang's tougher line, Peking has not lost interest in the North-South dialogue, however. The same NCNA article quoted a UN statement encouraging both sides to continue their negotiations.

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IRAN-IRAQ: The border fighting last weekend between Iran and Iraq may have been caused by Iranian road-building in a disputed border area.

25X1 [redacted] an Iranian construction crew ignored repeated warnings from Iraqi border guards to cease work on a road that the Iraqis claimed was being built on their side of the border. On February 4, the Iraqis opened fire but were driven back.

The Iranians later seized a strategic hill overlooking the construction site, but on February 10 the Iraqis recaptured it using artillery and armor. The Iranians again counterattacked and pushed several miles inside Iraq.

The Shah's instructions to his troops to hold the territory they have gained may have prompted Iraq to call for a Security Council meeting, as an alternative to another attempt to retake the area by force. Iran's military moves in the area also undoubtedly account for its opposition to Security Council involvement.

25X1 Meanwhile, consultations are continuing at the UN in an effort to avert the formal Security Council session now scheduled for Friday morning. Secretary-General Waldheim has informally offered to send an observer to the Iran-Iraq border area.

[redacted]

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POLAND-LIBYA: Warsaw's agreement to buy Libyan oil, signed on February 11, is the third deal it has negotiated directly with Middle Eastern producers in the past year. The first was signed with Iran last May, and the second with Algeria in August.

The USSR, Poland's major crude oil supplier, advised East European customers several years ago to seek oil from other sources to supplement Soviet deliveries. This has led to initiatives by all the East European countries to diversify sources of crude oil supply. Poland, nevertheless, continues to rely on the USSR for most of its oil supply.

The new agreement, signed during Prime Minister Jallud's visit to Warsaw, calls for annual increases in deliveries of Libyan petroleum through 1980. The quantities, prices, and terms of settlement were not disclosed. Under the agreement, Poland is to provide designs, technical assistance and equipment for petroleum, power, transportation, building materials, and water resource projects, as well as cargo and tanker ships. Poland already is heavily involved in construction contracts in Libya, and at least 1,600 Poles are in the country working under commercial arrangements.

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Arab States: South Yemen, Syria, and Tunisia have obtained loans totaling \$24 million from the Arab Fund for Economic and Social Development. The loans are to be used for harbor construction, oil storage facilities, and a power plant. According to the fund's chairman, negotiations with other Arab states for similar development projects will begin soon. All the Arab states, except Saudi Arabia, established the fund in the late 1960s, and Kuwait and Libya provided most of its \$338-million capital.

[redacted]

Peru: The Soviet Union reportedly has begun to train Peruvian soldiers in the use of the 25 to 35 T-55 tanks that arrived last November.

[redacted] the Soviet advisers are relying on simplistic lectures and live demonstrations rather than on manuals or other written materials, a method some Peruvians may not find to their liking. The reliance on personal instruction is an indication that the Soviets are intent on maintaining an active advisory role in the country for as long as possible. [redacted]

Brazil-USSR: Moscow agreed to supply 7.3 million barrels of diesel oil worth almost \$100 million to Brazil, according to a press report. The sale should help to correct the imbalance in Soviet-Brazilian trade. It also will provide Brazil with a 40-day supply of urgently needed diesel fuel, which Brazil has been seeking for some time. [redacted]

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Venezuela: A respected Venezuelan journalist reports that President-elect Perez has told him foreign oil company holdings will revert to the state within two years after his government takes office on March 12. Both Perez and the Social Christian party of incumbent President Caldera are committed to pressing for reversion to Venezuela of foreign oil holdings, but have differences over the timing of the move. [REDACTED]

Arab Summit: King Faysal and presidents Sadat, Asad, and Boumediene have begun their second day of talks in closed session. Press reports from Algiers speculate that the scheduled meeting of Arab oil producers in Libya was postponed indefinitely because it was out of step with decisions being taken on the oil embargo by the four Arab heads of state in Algiers. A press report from Beirut claims President Asad has handed a list of Israeli prisoners held by Syria to Egyptian President Sadat. [REDACTED]

Israel-Syria: The Israeli-Syrian front was quiet again yesterday. Only minor incidents have been reported since the heavy exchanges of artillery, tank, and mortar fire on February 11. [REDACTED]

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